



# BOARD OF DIRECTORS

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*California Housing Finance Agency  
Board of Directors*

March 13, 2017  
Housing Policy Outlook and CalHFA Business Update

Bank of the West Tower  
500 Capitol Mall  
Conference Center, Suite 1800  
Sacramento, CA  
(916) 326-8000 (CalHFA Receptionist)

4:00 p.m. – 8 p.m.

1. Roll Call.
2. State Housing Policy and Economic Briefing

Presentations from:

- Mark Stivers, Executive Director, California's Tax Credit Allocation Committee
- Jeree Glasser-Hedrick, Executive Director, California Debt Limit Allocation Committee
- Irena Asmundson, Chief Economist, Department of Finance

Q&A

3. Federal Housing Policy Briefing

Presentations from:

- Carol Galante, Professor and Faculty Director, Turner Center for Housing Innovation, UC Berkeley
- Mike Novogradac, Managing Partner at Novogradac & Company
- Matt Schwartz, President & CEO of the California Housing Partnership

Q&A

(OVER)

4. Break
5. CalHFA Business Updates:
  - a) Mid-Year 2016-17 Business Plan update ..... 01
  - b) 2016-17 Mid-Year Budget update ..... 13

Presentation from:

- Donald Cavier, Chief Deputy Director, California Housing Finance Agency  
Q&A
- c) Board discussion of possible business plan initiatives for fiscal year 2017-18.

Presentation from:

- Donald Cavier, Chief Deputy Director, California Housing Finance Agency
  - Tim Hsu, Director of Financing, California Housing Finance Agency
  - Tony Sertich, Director of Multifamily Programs, California Housing Finance Agency  
Q&A
6. Discussion of other Board matters.
  7. Public testimony: Discussion only of other matters to be brought to the Board's attention.
  8. Meeting adjourned
  9. Handouts

## NOTES\*\*

**PARKING: Public parking at Bank of the West Tower - Entrance at 5<sup>th</sup> and N Streets.**

**Tomorrow, Tuesday, March 14, 2017 at 9:00 a.m. is the regularly scheduled Board meeting at this location.**

# MEMORANDUM

**To:** Board of Directors

**Date:** March 13, 2017

**From:** Donald Cavier, Chief Deputy Director  
CALIFORNIA HOUSING FINANCE AGENCY

**Subject:** Agenda Item 5A – MID-YEAR 2016-17 BUSINESS PLAN UPDATE

## **Background**

In May 2016, with our single family and multifamily lending programs on a solid foundation, the Board adopted the fiscal year 2016-17 strategic business plan; a plan centered around expanding our lending activities and building upon the positive momentum generated in fiscal year 2015-16. With our single family lending programs exceeding a billion dollars in loan purchases and multifamily programs financing \$364 million in fiscal year 2015-16, the expectations for fiscal year 2016-17 are high and our mid-year results and revised projections for the fiscal year have not disappointed.

## **Business Plan**

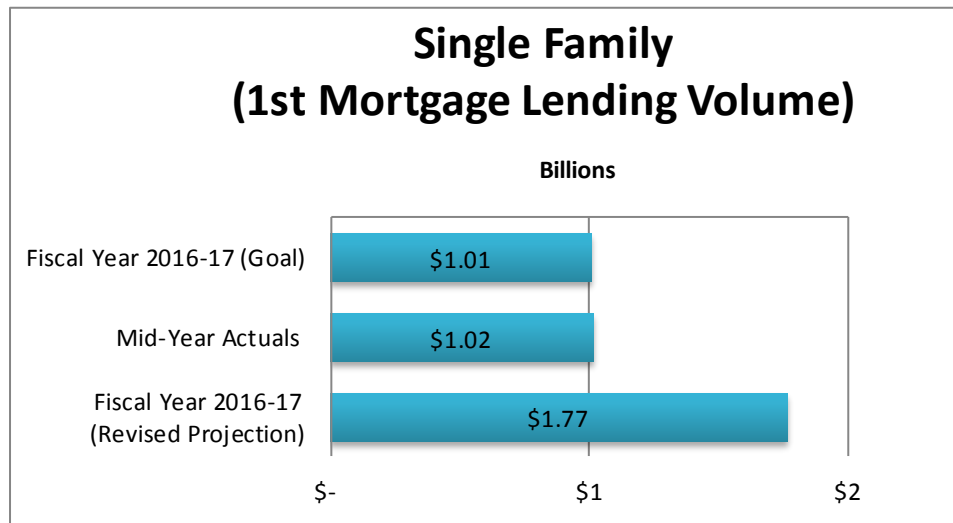
The fiscal year 2016-17 Strategic Business Plan consists of four primary goals: 1) Increase the Agency's future income and equity position by expanding single family and multifamily lending activities consistent with State housing needs; 2) Continue to improve operational efficiencies through the use of technology, workforce planning and the implementation of best practices; 3) Collaborate with other housing entities to deliver effective and efficient housing solutions; and 4) Help prevent avoidable foreclosures by providing assistance to eligible homeowners who have financial hardship and/or significant negative equity

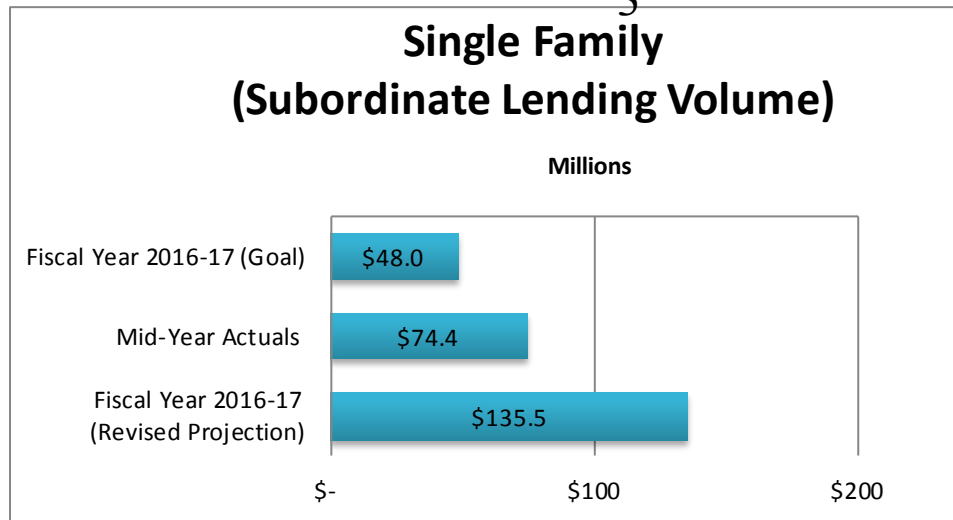
Each business plan goal has key strategies identified for achieving these goals. The following is a status update regarding the progress made through December 31, 2016:

**Goal #1 - Increase the Agency's future income and equity position by expanding Single Family and Multifamily lending activities consistent with State housing needs**

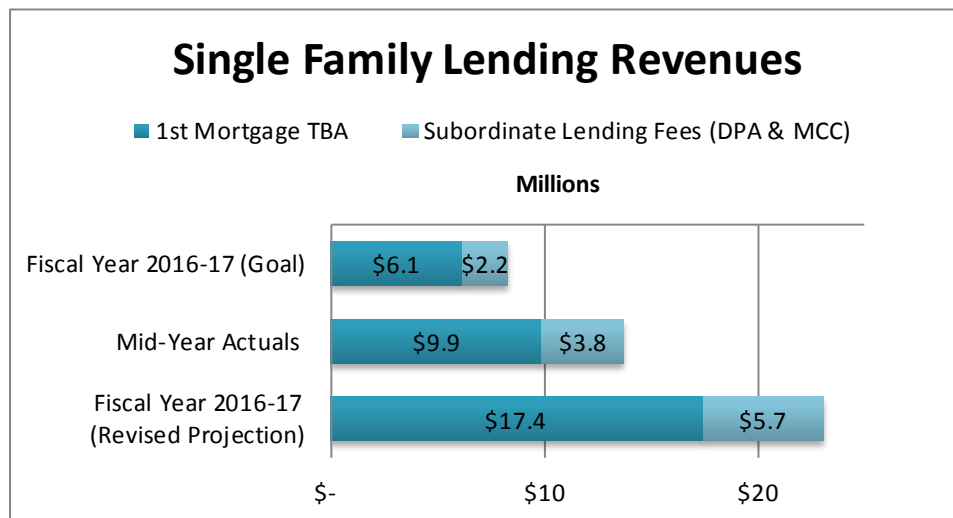
***Generate income via single family lending opportunities:***

For fiscal year 2016-17 single family lending targeted \$1.01 billion in 1<sup>st</sup> mortgage loan purchases and \$48 million in down payment assistance (DPA) loans. At mid-year, 1<sup>st</sup> mortgage loan purchases were \$1.02 billion or 100% of business plan objectives. DPA transactions exceeded our original business plan goals, with DPA loan production at \$74.4 million as of 12/31/2016. The higher than expected DPA production in the first half of the year is directly related to delays in the timing of subordinate loan purchases from our lender network and that the average DPA loan amount is higher than expected. With the rise in interest rates over the last couple of months, lending volumes have slowed slightly; but is still expected to reach \$1.77 billion in 1<sup>st</sup> mortgage lending and \$135 million in subordinate financing by the end of the fiscal year.





The revenue targets for the Single Family Lending programs were \$8.3 million in fee income and \$19.8 million in the present value of future revenues from subordinate loans purchased. At mid-year, revenues were \$13.7 million or 164% of business plan goal. Earnings on single family lending were conservatively estimated at 60 basis points (bps) per loan; however, CalHFA is earning nearly 100 bps on each loan, as well as fee income from DPA loans, mortgage credit certificates and other fees.



Additional mid-year updates include:

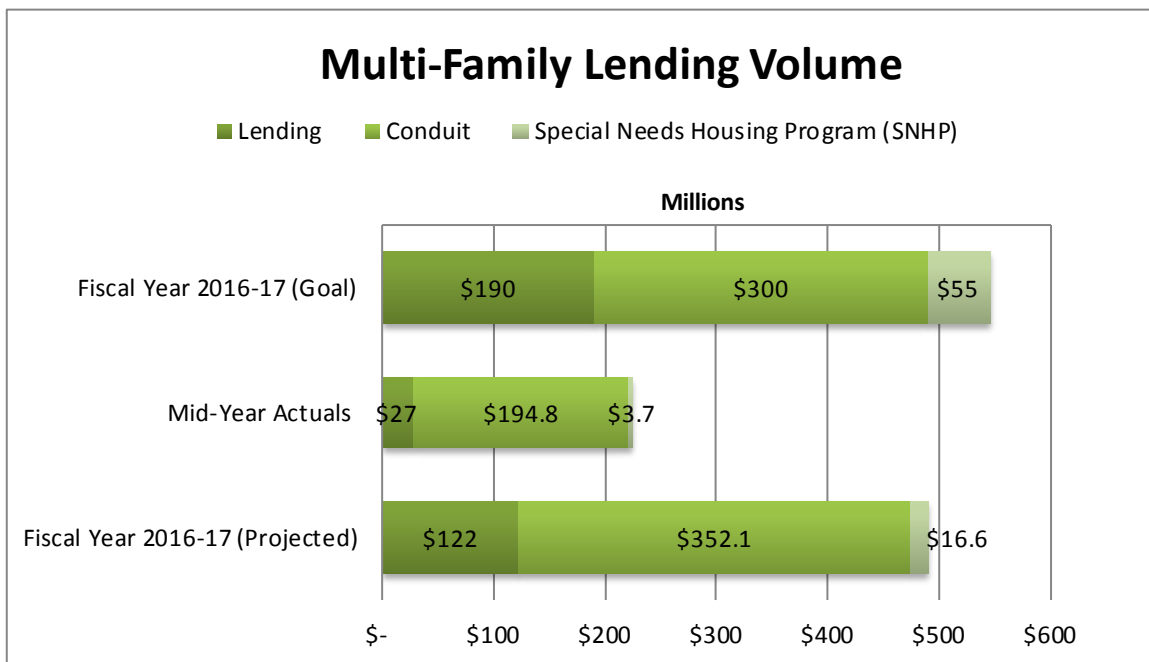
- Implemented program changes and enhancements to the single family lending platform to reduce the suspension rates of subordinate loans and streamline operations
- Successful transition to a new master servicer improved turnaround times on the review, purchase and securitization of 1<sup>st</sup> mortgage loans

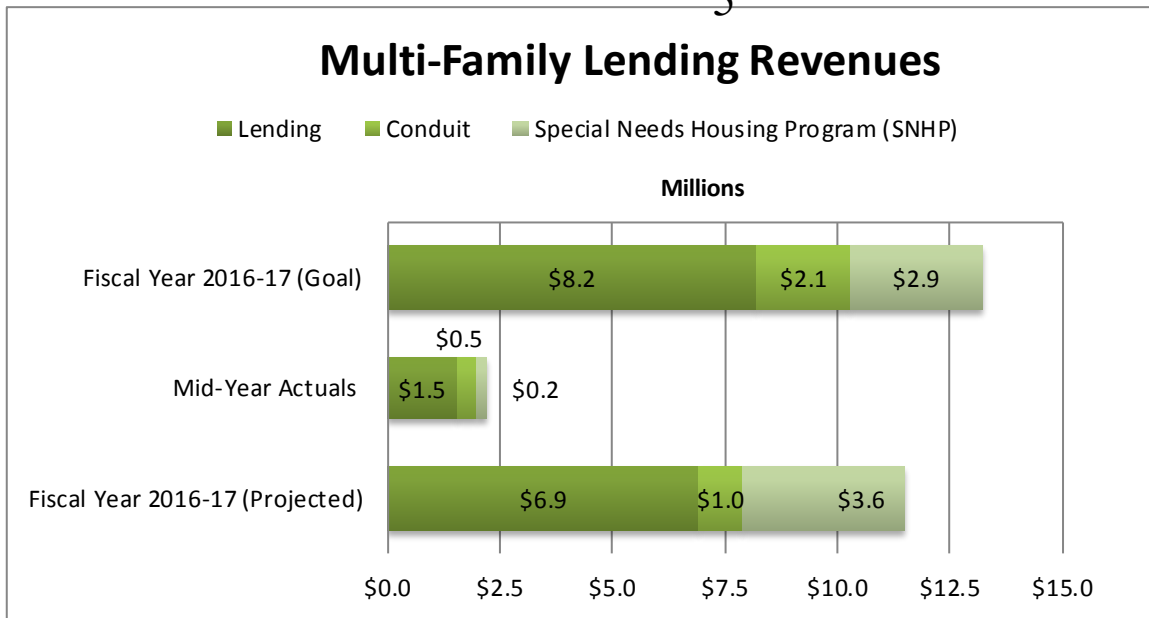
***Generate income via multifamily lending opportunities:***

The Multifamily Programs Division targeted \$545 million in lending activity and \$13.2 million in revenue for fiscal year 2016-17:

- \$190 million in 1<sup>st</sup> mortgage loan origination
- \$300 million in Conduit Issuance
- \$55 million in Special Needs Housing Program (SNHP)

At mid-year, with the increase in interest rates and the uncertainty in the tax credit markets, multifamily lending activities and revenues are trailing expectations closing \$27 million in first lien loans for 476 units, \$194.8 million in conduit issuance for 614 units and \$3.7 million in Special Needs Housing Program Loans for 40 units for a total of \$225.7 million for 1,130 units. However, the Agency is optimistic that the current pipeline of multifamily projects set to close in the second half of the year will dramatically improve production. The Agency expects to close approximately \$491 million in loan volume or 90% of goal for 3,154 units of affordable housing. Similarly, revenues are expected to reach \$11.5 million or 87% of goal.





Additional mid-year updates include:

- Implemented CalHFA Special Needs Housing Program which was designed to serve as a bridge for localities until HCD's No Place Like Home Program was up and running. Ten counties have elected to participate and have allocated \$61 million to the program
- Developing partnerships with CDFIs and local governments to create programs for affordable housing for "Missing Middle" renters
- Restructured the Multifamily Lending division by adding a Credit Officer and created loan teams to more efficiently underwrite and close loans, and to provide more quality control over the lending process
- Piloting the use of tablets to complete Asset Management inspections and to improve the efficiency and timeliness of inspection reporting
- Completed initial discussions with USDA's Rural Assistance division to provide loan guarantees on CalHFA's rural affordable rental developments.

***Strengthen Agency financial position by expanding credit facilities and maximizing return on equity:***

- Executed \$100 million credit facility for single family lending with the Federal Home Loan Bank (FHLB) of San Francisco

- Strategically purchased Agency generated Mortgage Backed Securities (MBS) to improve return on equity
- Moody's upgraded the Home Mortgage Revenue Bond indenture and CalHFA's overall issuer credit rating from A2 stable outlook to A2 positive outlook

**Goal #2 - Continue to improve operational efficiencies through the use of technology, workforce planning and the implementation of best practices**

***Increase operational efficiencies:***

- Participating in the CalHR workforce planning pilot program with the goal of having a completed workforce planning document by the end of the fiscal year
- Developed pilot electronic workflow process for procurement documents to streamline document processing - project has broader applications Agency-wide
- Near completion of the standardization of multifamily lending documents using "HotDocs" software - exploring broader organizational application
- Consolidated offsite equipment storage resulting in annual savings of \$9,600
- Eliminated Culver City storage resulting in annual savings of \$12,000
- Completing upgrade of Microsoft Dynamics Great Plains (GP) going from GP2010 to GP2016
- Evaluating feasibility of implementing additional modules to automate and streamline existing processes and financial reporting
- Implementing realignment of Fiscal Services to better meet the business needs of the Agency
- Designed web portal for Borrower inquiries on multifamily loans
- Hired Asset Management Chiefs in Culver City and Sacramento



## *Develop long-term strategies to monitor and mitigate enterprise risk:*

During the last legislative session the CalHFA was successful in replacing the Director of Mortgage Insurance position with the newly created Director of Enterprise Risk Management and Compliance position. The Agency is in the process of establishing the duty statement, the salary range and is beginning the recruitment process to fill the position.

The Agency is actively participating in the State Leadership Accountability Act risk assessments and reporting process. Under the requirements of this Act, CalHFA must continuously assess the internal and external risks impacting operations, reporting and compliance. As risks are identified, have a corrective action plan in place. Other mid-year updates include:

- Completed IT Risk Assessment and Controls Review per AB670
- Updated and Tested Business Continuity Plan
- Implemented monthly Information Security Awareness Training Program
- Conducted Information Technology Vulnerability Assessment
- Began streamlining and update of Information Technology and Information Security Policies- to be completed in June 2017
- Implemented new CommVault Backup/Replication system to speed up backups and recoverability of Agency data and systems
- Updated computers to Windows 10 and Office 2016 - to be completed in June 2017
- Moved Agency email accounts to Microsoft's Office 365 cloud offering – to be completed in June 2017

## *Agency-wide IT integration of data collection, flow and reporting:*

The Agency has established a Strategic Project Governance Committee to help ensure that major business plan initiatives are being tracked, needed resources are made available and projects are on schedule. Additionally, the committee has centralized data reporting for lending and operations to improve the quality, reliability and timeliness of reporting. Other ongoing projects include:

- Researched and implemented Geographic Information systems solution for improved decision making

- Documented current Fiscal Systems processes to transition to automation using modules within GP
- Completed the migration of all documents from the legacy iManage enterprise content management system to SharePoint 2010
- Upgraded SharePoint to 2016 and dedicated a new, high performance database server to increase performance and capacity

**Goal #3 - Collaborate with other housing entities to deliver effective and efficient housing solutions**

*Increase opportunities to meet California's affordable housing needs:*

CalHFA worked closely with HCD on the following projects – Statewide Housing Assessment, No Place Like Home program development, ongoing administration of Veterans Housing & Homelessness Prevention Program, HUD Section 811 Project Rental Assistance program, and the HOME Tenant Based Rental Assistance program.

**Goal #4 - Help prevent avoidable foreclosures by providing assistance to eligible homeowners who have financial hardship and/or significant negative equity**

*Maximize use of KYHC program funds:*

Homeowners Assisted by Program

Based on the continued need of California homeowners for assistance and the historical performance of the Keep Your Home California (KYHC) program, KYHC was allocated \$383 million more in Hardest Hit Fund (HHF) funds effective June 1, 2016. Total allocation of HHF funds to KYHC is \$2,358,593,320 with \$2,116,774,710 available for homeowner assistance (i.e., less permitted administrative expenses).

Through December 31, 2016, 65,544 unique homeowners have received assistance from the KYHC program. Ten thousand four hundred fifty-eight (10,458) homeowners have received secondary assistance from KYHC (i.e., never exceeding the individual or overall program cap) including 6,693 homeowners that received Unemployment Mortgage Assistance (UMA) program assistance more than once, 12 homeowners received additional Mortgage Reinstatement Assistance Program (MRAP) assistance \*\*, 67 homeowners received additional Principal Reduction Program (PRP) assistance and 3,686 homeowners received assistance from a unique, second KYHC program. A

breakdown by program of homeowners assisted, assistance provided through December 31, 2016 and remaining assistance committed is illustrated in the following chart.

\*\*MRAP funds were provided, returned in error by the Servicer, and provided again. None of these homeowners received a reinstatement more than once.

Homeowners Assisted - Program Inception to December 31, 2016							
Program	Count <sup>1</sup>		Amount Awarded	Future Commitment	Total	Allocation (as of 12/31/16)	%
Unemployment Mortgage Assistance (UMA)	52,104	69%	\$767,785,313	\$97,394,928	\$865,180,241	\$1,001,965,000	86%
Mortgage Reinstatement Assistance Program (MRAP)	12,060	16%	\$180,555,940	\$5,502	\$180,561,442	\$204,072,500	89%
Principal Reduction Program (PRP)	10,256	13%	\$619,096,058	\$0	\$619,096,058	\$895,968,000	69%
Transition Assistance Program (TAP)	1,011	1%	\$3,587,495	\$0	\$3,587,495	\$4,180,000	86%
Reverse Mortgage Assistance Pilot Program (RevMAP)	537	1%	\$6,673,807	\$0	\$6,673,807	\$10,000,000	67%
Community Second Mortgage Principal Reduction Program	34	0%	\$589,210	\$0	\$589,210	\$589,210	100%
Total	76,002	100%	\$1,578,287,823	\$97,400,429	\$1,675,688,254	\$2,116,774,710	79%

1- Transaction count indicates the number of non-unique homeowner assistance transactions.

### In Process Homeowners

As of December 31, 2016, a total of 3,858 eligible homeowners were in the active pipeline, pending final benefit determination, for one of the five, active KYHC programs. A by-program breakdown of eligible homeowners "In Process" is provided in the following chart.

In Process Homeowners – as of December 31, 2016 *			
Program	#	%	Reserve \$
Unemployment Mortgage Assistance (UMA)	1,205	31%	\$25,262,436
Mortgage Reinstatement Assistance Program (MRAP)	718	19%	\$11,628,366
Principal Reduction Program (PRP)	1,750	45%	\$170,236,47
Transition Assistance Program (TAP)	14	0%	\$65,000
Reverse Mortgage Assistance Pilot Program (RevMAP)	171	4%	\$2,050,000
Total	3,858	100%	\$209,242,280

\* Figures shown above represent all homeowner transactions, not only unique homeowner transactions

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# **CalHFA Strategic Business Plan FY2016-17**

**Mission:** *To create and finance progressive housing solutions so more Californians have a place to call home.*

BUSINESS PLAN GOALS	KEY STRATEGIES	ACTION ITEMS	Due Dates
<p>Increase the Agency's future income and equity position by expanding single family and multifamily lending activities consistent with State housing needs</p>	<p><b>1 Generate income via single-family lending opportunities</b></p>	<b>A</b> Generate \$28.1 million in revenue through \$1.06 billion of loan production	6/30/2017
		<b>B</b> Diversify single-family business partners and lending programs	6/30/2017
		<b>C</b> Issue 2,600 Mortgage Credit Certificates to first-time homebuyers	6/30/2017
	<p><b>2 Generate income via multifamily lending opportunities</b></p>	<b>A</b> Generate \$10.3 million in revenue through \$190 million of loan production and \$300 million of conduit bond issuance	6/30/2017
		<b>B</b> "No Place Like Home" proposal	6/30/2017
		<b>C</b> Create multifamily lending programs that serve unmet needs in the California multifamily development market	6/30/2017
	<p><b>3 Strengthen Agency financial position by expanding credit facilities and maximizing return on equity.</b></p>	<b>A</b> Implement strategies to increase return on equity and develop long-term revenue streams using single-family MBS	6/30/2017
		<b>B</b> Develop working capital options for a single family and multifamily warehouse line	12/31/2016
	<p><b>4 Increase Operational Efficiencies</b></p>	<b>A</b> Continue to refine Agency's operational budget through administrative savings	6/30/2017
		<b>B</b> Implement improved strategies/process to recruit, train, and retain staff	6/30/2017
		<b>C</b> Better utilize information technology resources to streamline workflow	6/30/2017
<p>Continue to improve operational efficiencies through the use of technology, workforce planning and the implementation of best practices</p>	<p><b>5 Implement long-term strategies to monitor and mitigate enterprise risks</b></p>	<b>A</b> Explore establishment of an Enterprise Risk Management Department to identify Agency business risks, reduce waste and strengthen internal controls	6/30/2017
		<b>B</b> Maintain controls over IT data and tools to ensure data security and business continuity	6/30/2017
	<p><b>6 Agency-wide IT integration of data collection, flow and reporting</b></p>	<b>A</b> Continuously refine IT work plan to ensure that IT priorities align with business plan goals	6/30/2017
		<b>B</b> Assess current data system infrastructure and streamline/consolidate where appropriate	6/30/2017
	<p><b>7 Increase opportunities to meet California's affordable housing needs</b></p>	<b>A</b> Provide technical assistance to legislature and other interested parties regarding affordable housing	Ongoing
		<b>B</b> Collaborate with other State and local agencies to provide efficient financing of affordable housing	Ongoing
		<b>C</b> Support federal housing partners in the development and expansion of programs that help finance affordable housing in California	Ongoing
<p>Collaborate with other housing entities to deliver effective and efficient housing solutions</p>			

CalHFA Strategic Business Plan FY2016-17

**Mission:** *To create and finance progressive housing solutions so more Californians have a place to call home.*

BUSINESS PLAN GOALS	KEY STRATEGIES	ACTION ITEMS	Due Dates
Help prevent avoidable foreclosures by providing assistance to eligible homeowners who have financial hardship and/or significant negative equity	8 Maximize use of KYHC program funds	A Aggressively market programs to eligible homeowners, community groups and media to expand awareness	Ongoing
		B Measure program outcomes and assess barriers to eligibility	Ongoing
		C Monitor program recipients to assess level of homeownership sustainability facilitated by program assistance	Ongoing

State of California

**M E M O R A N D U M**

**To:** Board of Directors  
California Housing Finance Agency

**Date:** March 13, 2017

**From:** Donald Cavier, Chief Deputy Director  
California Housing Finance Agency

**Subject:** Agenda Item 5B-- FY 2016-17 CalHFA MID-YEAR BUDGET UPDATE

In May 2016, the Board approved the FY 2016-17 Operating Budget in conjunction with the adoption of the FY 2016-17 Business Plan. The approved operating budget includes a resource budget of \$65.2 million and expenditure budget of \$41.7 million and includes 266 permanent positions. At December 31, 2016, resources are \$20 million or 62% ahead of mid-year projections and operating expenses are \$1.8 million or 9% below mid-year projections. The table below provides a breakdown of our mid-year results as well as revised projections for fiscal year 2016-17.

<b>CALIFORNIA HOUSING FINANCE AGENCY</b> <b>MID-YEAR 2016-17 BUDGET UPDATE</b> (DOLLARS IN THOUSANDS)						
	Approved Budget	Mid-Year Budget	Mid-Year Actuals	Variance	%	Projected 2016-17
<b>RESOURCES</b>						
Loan Servicing	\$ 1,952	\$ 976	\$ 2,500	\$ 1,524	156.1%	\$ 2,500
Insurance Release	\$ 643	\$ 322	\$ 738	\$ 417	129.5%	\$ 1,015
Loan Repayments	\$ 25,567	\$ 12,784	\$ 16,210	\$ 3,427	26.8%	\$ 29,398
Interest (mortgages/securities/cash)	\$ 13,560	\$ 6,779	\$ 7,333	\$ 554	8.2%	\$ 15,011
Fee Income	\$ 23,503	\$ 11,751	\$ 21,331	\$ 9,580	81.5%	\$ 36,963
Extraordinary Items	\$ -	\$ -	\$ 4,678	\$ 4,678	0%	\$ 4,678
<b>TOTALS</b>	<b>\$ 65,225</b>	<b>\$ 32,611</b>	<b>\$ 52,790</b>	<b>\$ 20,179</b>	<b>61.9%</b>	<b>\$ 89,565</b>
<b>OPERATING BUDGET</b>						
Salaries and Wages	\$ 20,582	\$ 10,291	\$ 9,535	\$ 756	7.3%	\$ 19,070
Reimbursements	\$ (599)	\$ (300)	\$ (352)	\$ 53	-17.5%	\$ (704)
Benefits	\$ 9,627	\$ 4,814	\$ 4,425	\$ 389	8.1%	\$ 8,850
General Expense	\$ 694	\$ 347	\$ 348	\$ (1)	-0.3%	\$ 694
Communications	\$ 414	\$ 207	\$ 150	\$ 57	27.5%	\$ 375
Travel	\$ 480	\$ 240	\$ 191	\$ 49	20.4%	\$ 442
Training	\$ 175	\$ 88	\$ 44	\$ 44	49.7%	\$ 103
Facilities Operation	\$ 2,825	\$ 1,413	\$ 1,338	\$ 75	5.3%	\$ 2,776
Consulting & Professional Services	\$ 3,861	\$ 1,931	\$ 1,322	\$ 609	31.5%	\$ 3,144
Central Administrative Services	\$ 2,624	\$ 1,312	\$ 1,725	\$ (413)	-31.5%	\$ 2,624
Information Technology	\$ 854	\$ 427	\$ 217	\$ 210	49.2%	\$ 684
Equipment	\$ 130	\$ 65	\$ 55	\$ 10	15.4%	\$ 130
<b>TOTALS</b>	<b>\$ 41,667</b>	<b>\$ 20,834</b>	<b>\$ 18,998</b>	<b>\$ 1,836</b>	<b>8.8%</b>	<b>\$ 38,188</b>
<b>NET SURPLUS/(EXPENDITURE)</b>	<b>\$ 23,558</b>	<b>\$ 11,777</b>	<b>\$ 33,792</b>	<b>\$ 22,015</b>	<b>186.9%</b>	<b>\$ 51,377</b>

## **RESOURCES:**

At mid-year, resources are trending \$20 million or 62% higher than originally anticipated due to increases in servicing income, the release of earthquake insurance reserves, accelerated loan repayments, increased fee income from single family lending, and faster than expected repayments from unencumbered loans. The increase in servicing fees is solely related to the timing of inter-fund transfers of servicing fees to the operating fund and do not reflect actual servicing fees collected in the first half of the year. The release of the insurance reserve and the increase in loan repayments are the direct result of the higher than expected prepayment speed of the loan portfolio. The budget conservatively estimated prepayment speeds of 6% annually; however, the actual rate of prepayment was closer to three times that rate. Similarly, fee income has outpaced expectations due to the increase in single family lending activity and the fact that the program is earning approximately 100 bps per loan purchased compared to the 50-75 bps anticipated in the budget. Another contributing factor to the increase in resources was the faster than expected repayments from unencumbered loans resulting in an additional \$3.4 million of resource. Finally, the unanticipated prepayment of a multifamily loan and yield maintenance fee resulted in a \$4.7 million extraordinary items.

## **OPERATING BUDGET:**

The operating budget is trending \$1.8 million or 9% under budget at mid-year due primarily to salary and benefit savings from vacancies, increased reimbursements for staff services from other State agencies and cost savings from professional services contracts. Salary and benefit costs make up 71% of the operating budget and provides for both permanent and temporary help positions. The fiscal year 2016-17 budget authorized full time equivalent positions of 273.6 full time equivalents (FTE) (266 regular positions and 7.6 temporary positions), a net reduction of 12.2 positions compared with prior year. At mid-year, salary costs are trending 7% under budget due to the increase in vacant positions from employee retirements and separations. To ensure the efficient use of staff resources, the Agency requires that the department's workload supports the replacement of positions, and that there are no internal opportunities to transfer between departments prior to initiating recruitment efforts. At mid-year, the Agency had 33 vacant positions and 6 positions in various stages of the recruitment process. While we anticipate that several of the current vacancies may be eliminated in the fiscal year 2017-18 budget process, we intend to balance any reductions with the long term needs of the organization. That is why it is imperative that CalHFA develop and implement a sound workforce planning strategy to address recruitment, retention and succession planning. The Agency anticipates having a completed workforce planning strategy developed by the end of this fiscal year and intends to implement during the first half of FY 2017-18.

Reimbursements for staff services from HCD and CalTRANS are slightly higher than originally anticipated, and costs for professional services are substantially under budget. Many of the professional services contracts have not been utilized or are scheduled for expenditure in the second half of this fiscal year.

Overall, CalHFA's operating budget is projected to be \$38.2 million, well within the approved fiscal year operating budget of \$41.7 million.